

New Opportunities in China for U.S. Wine Producers

The Latin proverb in *vino veritas* means “in wine there is truth,” but there may be more in wine than just truth—like profits. In 2003, China imported 1.2 million liters of U.S. wines, making it the 24th largest market for U.S. wine exports. Although Taiwan, Singapore and Hong Kong each buy more U.S. wines than China, few countries can boast the long-term potential that its largely undeveloped market represents.

Bulk Versus Bottled

Over the past few years, U.S. bulk and bottled wines have followed divergent paths in China. While imports of U.S. bulk wines plummeted between 2000 and 2002, imports of U.S. bottled wines increased 68 percent, according to China customs data. Imports of inexpensive U.S. bulk wines have been undercut by growth in China's own wine production, while lower tariffs and growing disposable income have smoothed the way for bottled wine imports.

U.S. exporters may find a greater comparative advantage in selling mid- and high-range bottled varieties than bulk wines. However, this trend may be changing, as some U.S. exporters have begun shipping higher quality wines in bulk to be bottled in China.

Market Shifts to Shanghai Suppliers

Although no single data source fully captures China's market for imported wines, certain trends have become evident. In the last several years, China's wine imports have shifted from indirect ship-

ments through Hong Kong to direct shipments into Shanghai, due to improvements in both the quantity and quality of import and distribution options and infrastructure available to U.S. bottled wine producers.

China's demand for wines is growing even faster than its steadily rising production, creating a shortfall that has led to the blending of inexpensive bulk foreign wines with local ones, so most wines labeled as Chinese contained 30-40 percent imported product.

The Domestic Wine Industry

China's grape-growing area expanded 40 percent between 1997 and 2002 and is expected to grow at an annual average of 12 percent through 2007. In 2002, China had about 461,127 acres planted with grapes.

The top wine-producing provinces are Hebei and Shandong in North China and Xinjiang in the far west. Although China's wine output has grown rapidly, its exports have declined steadily during the last few years as its domestic consumption has increased.

Import Taxes

Under China's World Trade Organization accession agreement, wine tariffs

are declining from 24.2 to 14 percent in 2004. But if foreign wines gain market share, consumption taxes may be raised. Since these taxes are assessed on value, they would affect bottled imports more than domestic wines.

Bottle Labeling—Accept No Substitutions!

China's food labeling law applies to all prepackaged food and beverage products, such as bottled wines. Labels must include: name or brand, net fluid, alcoholic, sugar and other ingredient content, production date, name and address of packer, distributor or importer, must content (expressed juice before and during fermentation), country of origin and quality guarantee or storage period date.

Standard required documents include certificates of origin and health. Bottling companies and wineries often provide certificates of analysis and origin.

Many imported wines continue to have original labels on the front of the bottle, with Chinese language stickers on the back. While customs officials have said that they would enforce the labeling law more strictly beginning in March 2003, wine imports continue to enter with stickers.

Producers are advised to develop

Shanghai Bottled Wine Imports: The United States Ranks Second Among the Top Five Suppliers

Country	\$ Million			% Market Share			% Increase
	2000	2001	2002	2000	2001	2002	
France	0.608	0.955	1.605	31.50	41.56	35.04	68.05
United States	0.298	0.455	1.021	15.46	19.82	22.30	124.25
Australia	0.170	0.265	0.716	8.81	11.54	15.65	170.19
Italy	0.417	0.195	0.350	21.63	8.50	7.63	79.11
Spain	0.055	0.171	0.254	2.88	7.44	5.54	48.45
World Total	1.929	2.298	4.579	100	100	100	99.31

Chinese language labels in anticipation of full enforcement of the law. Such labeling will also help to support promotional efforts and to differentiate genuine products from imitations.

Import and Distribution Channels

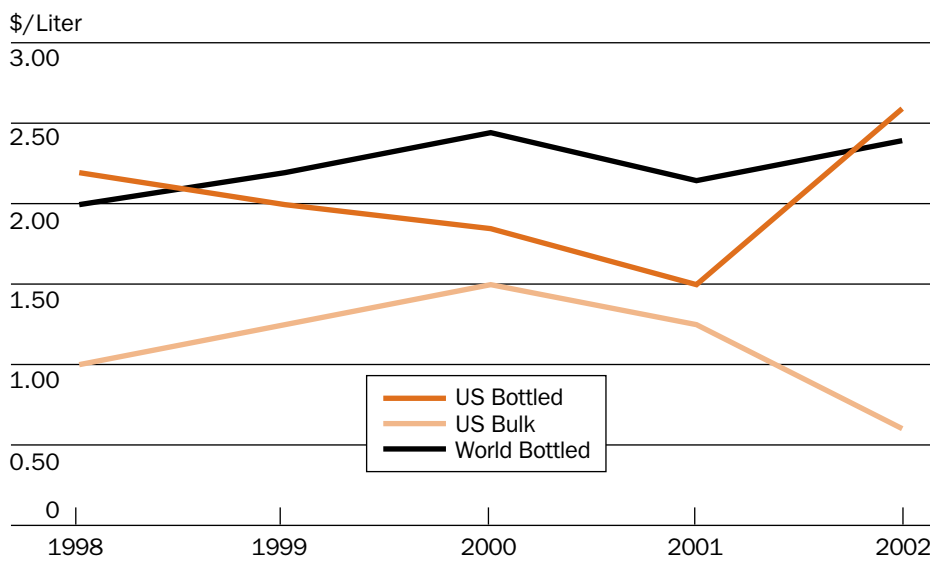
Typically, wines enter China's importer and distributor network through three channels:

- CEROILS (China National Cereals, Oils & Foodstuffs Import and Export Corporation), the state monopoly wholesaler and distributor of alcoholic beverages. Most private importers and distributors bring product into the country under the auspices of CEROILS.
- Joint venture and foreign-owned hotels and duty-free stores under China Travel Services. This is a somewhat limited channel, as products are restricted from general distribution.
- The gray channel of Hong Kong and Guangzhou. This channel is declining in importance as duties fall and enforcement of regulations becomes more rigorous.

As the dominant port of entry, Shanghai offers several foreign-run, fully integrated import and distribution options; however, importers in Shanghai are often reluctant to carry new products.

Some importers and distributors offer a full range of sales and marketing services, including climate-controlled warehousing, trade education, market promotion, sales and delivery. Most successful importers and distributors obtain a sublicense from CEROILS, and then handle marketing and distribution themselves, an arrangement that allows them more control over brand development, handling and storage.

Average Prices for U.S. Bottled and Bulk Wines Are Competitive



The Bouquet of Success

Roughly two-thirds of wines consumed in China are purchased in hotels and restaurants. Networking with distributors and clients and participating in promotions and trade shows are the best ways to learn the retail and food service sectors.

It is vital for producers to have good relationships with their importers and distributors to ensure that the entire supply process works smoothly. Extensive marketing and educational activities are essential to reach beyond the business traveler and expatriate segments and develop a critical base of Chinese consumers.

Many importers and distributors may not have marketing and education services, so unless new products are competitively priced or introduced through comprehensive educational promotions, they may fail, even in relatively developed coastal markets.

Another influential factor is pricing. In Shanghai, the market price for a 0.75-liter bottle (1 liter=1.0567 quarts) of

imported wine hovers around 55 renminbi (about \$7.00), compared to 35 renminbi for a domestic dry red wine.

Those producers who identify a market niche and establish solid relationships with importers and distributors are most likely to succeed. Education, aggressive marketing and a long-term approach are critical to successfully export bottled wines to China. ■

The story is based on reports prepared by an external contractor in conjunction with the FAS Agricultural Trade Office in Shanghai, China. For more information on this market, contact that office at: Tel.: (011-86-21) 6279-8622; Fax: (011-86-21) 6279-8336; E-mail: atos@public.sta.net.cn

For details, see FAS Reports CH3802 and CH3803. To find them on the Web, start at www.fas.usda.gov, select **Attaché Reports** and follow the prompts.

